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C O N F I D E N T I A L SECTION 01 OF 02 UNVIE VIENNA 000280

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SUBJECT: AUSTRIAN AMBASSADOR TO TEHRAN FINDS IRAN POSITIVE  
ON ENGAGEMENT

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Classified By: DCM Geoff Pyatt for reasons 1.4 (c) and (e)

11. (C) Summary. On June 10, Austrian Ambassador to Tehran Michael Postl (please protect) debriefed MsnOff on the current state of play in Iran on engagement, the nuclear issue, and the economy. Postl argued that the Iranian leadership is favorable on engagement with the U.S., but that it is still trying to figure out the best way to respond to overtures by the Obama administration. He suggested the use of "test balloons" to see whether Iran could be a reliable partner on areas of concern such as Afghanistan and a direct approach that would make clear that U.S. actions would be dependant on Iranian responses. Postl noted that he has tried to convince his interlocutors that rather than providing a counterproposal to the P5 1, Iran should respond to the proposal with questions and requests for clarification in order to start a dialogue. He advises that future sanctions would be most effective if they focus on oil and gas or on visa bans for high-level officials to target Iranian pride and notes that, although past sanctions have had some effect, the Iranian economy is also affected by endemic Iranian corruption, the fall in oil prices, and the worldwide economic slump. End Summary.

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Iran Positive on Engagement, but Cautious  
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12. (C) On June 10, Austrian Ambassador to Tehran Michael Postl—who claims excellent access to Iranian officials, but uses this access "scarcely"—told MsnOff that Iranian officials are still grappling with recent U.S. overtures to Iran. The Nowruz message was a surprise to Iranian officials, but Postl believed that the key pieces of the message that worked well with the Iranian people were addressing both the leadership and the people of Iran and referring to the Islamic Republic of Iran. Postl noted that the leadership is still thinking about how to "handle" the message and that Iranians do not like to give in quickly. The government's new strategy is to demand actions from the U.S., but in private, Postl has been told that if the U.S. moves, Iran promises actions in response (NFI). Although Postl left Iran the day after President Obama's Cairo speech, he noted that initial reactions were positive, but that most people in Iran were more focused on the domestic elections than the speech. He did note that he personally found the mention of Mossadeq in the President's speech "astounding" and that Austria and the EU found this portion of the speech very positive. However, although President Obama is young and can tell Iran that we need to move beyond the past, Iranians have a harder time doing so, in Postl's opinion.

13. (C) Postl believes that Iran is positive on engagement, but that the issue needs to be explored through "test

balloons." Some potential tests might include increasing the level of IAEA inspections and moving NATO resupply for Afghanistan through Iran. He suggests telling Iran directly that these actions are a test of whether Iran can be a reliable partner to make clear to the leadership that future cooperation will be dependant upon Iran's actions. He suggested that another possible opening might be the release of the Irbil detainees, but argued that if the U.S. does release them, Washington should make it clear to Tehran that this is a deliberate gesture tied to our strategic goal of a new relationship with Iran.

14. (C) Postl's Iranian interlocutors have expressed some confusion about the messages they have received from the U.S. and the West more generally. For instance, Postl claimed the Iranian leadership was very pleased with the meeting with U/S Burns last July and found him very open, but very negative remarks by the Secretary General of the UK's Foreign and Commonwealth Office soon followed. This has made it hard for Iran to decide how to respond, especially given the Iranian tendency to look for conspiracy in everything. Elaborating on the difficulties of starting engagement in the context of mistrust, Postl shared an anecdote about when the Israelis requested that he pass a message to Iran on their behalf. (Comment: Postl felt comfortable sharing the anecdote because Iran months later disclosed to the press that they had rejected an Israeli letter, but would not share the contents other than that it was a "positive" message. End Comment.) He went to the designated interlocutor, who was someone close to Ahmadinejad and believes that the person wanted to accept the letter and read its contents, but there was a watchdog present and the interlocutor refused to receive it. If he could "do it all over again," Postl said that he would have first contacted the person to tell him about the letter and its contents and then scheduled a second

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meeting to pass the letter if the interlocutor would be willing to receive it. He believed that this would have allowed the person to find a way to take the letter if he had wanted to.

15. (C) On the nuclear issue, Postl has told his interlocutors that it is wrong for Iran to present a counterproposal to the latest P5 1 package. Rather, Iran should react to the P5 1 and ask any questions that they have for clarification. This kind of approach is necessary to get to dialogue and build trust. Postl said that he is not sure why it has taken so long for the Iranians to respond, although it is possible that they were waiting until after Iran's presidential elections. He was even less sure that this is part of a delaying strategy, arguing that now Iran has reached an "acceptable" level of enrichment, they no longer have an imminent need to delay. He believes that one section of the Iranian elite is genuinely interested in getting past the nuclear issue and moving on, but that no one is willing to suspend enrichment again. Postl also noted that he believes that EU High Representative Solana should be seeing Supreme Leader Khamenei when he goes to Iran instead of lead nuclear negotiator Jalili, who is a more appropriate counterpart of Solana's Deputy, Cooper. Postl argued that Solana seeing Jalili "gives the wrong picture to Iran."

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Economy Still Struggling  
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16. (C) Postl noted that the Iranian economy is not going well and that sanctions have increased the costs of financial transactions by three to four times. Part of Iran's economic problems are also due to the world economic crisis, the reduction in the price of oil, and economic mismanagement in Iran. Contrary to the accusations of many, Postl believes that this economic mismanagement is due more to cultural reasons such as historic problems with nepotism and corruption than it is due to Ahmadinejad's leadership. In

this vein, Post1 was surprised that Iran ratified the UN Convention Against Corruption. If Iran implemented the Convention, it would mean serious revision of its own practices. Although Post1 believes that the U.S. should not be sponsoring democracy or NGOs in Iran, he thought that the U.S. could make strides toward democracy in Iran by identifying weaknesses in the Iranian system that allow corruption and by sponsoring training of Iranian police forces to prevent corruption at this level. Working with UNODC after an assessment of where Iran stands with regards to the Convention would help to identify funding possibilities for the U.S. and EU in Iran.

17. (C) Post1 assesses that two additional types of sanctions would be most effective in pressuring Iran. First would be sanctions on gas and oil which would hurt the West, but he believes that Iran's neighbors would be able to help take up the slack if Iranian exports were sanctioned. He also believes that visa bans would have an important effect on Iran if they targeted high-level officials. Since the Iranian people are very proud, Post1 argued, if their officials were banned from traveling to other countries, this would have a greater effect than economic sanctions. He would, however, recommend exceptions to a visa ban to allow Iranian officials to attend international conferences and discussions on nuclear and human rights issues. He noted that the EU would be more willing to agree to these sanctions if they were imposed at the Security Council.

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Iranian Fears of Unrest  
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18. (C) Post1 has noted a stronger military presence in Iran recently, although he attributed at least some of this to their upcoming elections. He believed that the Iranian government was responding to rumors about actors like the U.S. becoming spoilers for the election. According to Post1, part of this mistrust emanates from Iran's worry that the U.S. is still trying to intervene in Iranian affairs and stability, and Iran "clearly" still thinks that the U.S. and Israel are involved in unrest on the borders, including by providing support to the Kurds and Jundallah. In response to a question by MsnOff about how Iran's fears of U.S. intervention could be allayed, Post1 recommended that the U.S. declare actions by these groups to be terrorism, but he admitted that convincing Iran that the U.S. is not involved could be difficult.

SCHULTE